



Spring/Summer 1999



California Public Employees' Retirement System

PERS 457 PROGRAM UPDATE

INVESTMENT GLOSSARY

Net Asset Value. NAV is the fund share price. This is calculated by taking the assets in the fund minus expenses divided by the number of shares outstanding.

Daily Pricing. Daily pricing is the NAV at the close of each business day.

CALPERS NEEDS YOU!

Your feedback is an integral part of ensuring that your needs are being addressed and the services being provided are satisfactory. Please visit our web site at <http://www.calpers.ca.gov> or contact the Customer Service Line (800/696-3907) to let us know how we're stacking up and how to better meet your needs.

Y2K COMPLIANCE

The CalPERS Board of Administration recognized the importance of the Year 2000 computer issue in 1995 and directed CalPERS staff to develop a mitigation plan. A comprehensive year 2000 compliance plan was developed in 1996. The comprehensive CalPERS Year 2000 mitigation plan covers computer systems — both personal computers and mainframes — and business enterprise systems. The plan also includes proactive steps to ensure CalPERS contractors and business partners are also year 2000 compliant.

Major CalPERS business partners have provided assurances that their year 2000 issues are being addressed. State Street Bank, the custodian/recordkeeper for the CalPERS 457 program has reported that its year 2000 compliance plan is on schedule. CalPERS expects no adverse consequences to plan operation due to year 2000 compliance issues.

Spring Into Action Now

So you can bask in your efforts later

There is no time like the present to begin or increase your CalPERS 457 Program deferral percent. Taking advantage of the Internal Revenue Code (IRC) 457 \$8,000 annual deferral limit is quick and easy when you use the Program's toll-free automated Customer Service Line (800/260-0659). It is available 24 hours a day, seven days a week for immediate access to account information and for your transaction needs, including:

- *Account balances and investment results*
- *Investment selections and allocation percentages*
- *Transfers between investment options*
- *Withdrawal information*
- *Self-Managed Account information*
- *CD liquidation and maturing investment elections*
- *Personal Identification Number (PIN) changes*

To speak with a customer service representative, just call the Customer Service Line Monday through Friday between 9:00 a.m. and 5:00 p.m. Pacific Standard Time. Simply key in your Social Security number and PIN, press the star key (*) when you begin to hear the list of options. You will then be transferred to a customer service representative.

Did you know?

Seven out of ten Americans don't prepare wills.

Don't be fooled

Your home is your castle — so be sure to protect your estate for your heirs.

Many people think estate planning is only for the very wealthy, but it can be just as important for the middle class. When you consider the value of your home, retirement plan savings, and other assets, your total estate may add up to more than you realize — and an estate tax bite could hurt those you most want to protect. At minimum, prepare a will.

Life Stages Financial Planning

CalPERS conducts two free Financial Planning Seminars designed to address the financial needs of participants as they move through different stages of their lives. All CalPERS participants are eligible to attend the seminars on a first-come, first-serve basis. Spouses are welcome to attend, just request their attendance at the time of your registration.

Each one-day seminar is specific to the group, based on the participants' retirement horizon. The first seminar, "Achieving Financial Security", is geared toward retirement horizons of ten years or more. The "Retirement and Estate Planning" seminar is designed for participants who have a retirement horizon of less than ten years. ***Both seminars include information on: CalPERS benefits, tax-deferred plans, financial planning, insurance planning, investment strategies, and estate planning.***

Registration form (FSD-21) may be obtained by contacting your Training Officer(s) or by visiting the CalPERS web site at <http://www.calpers.ca.gov> for seminar date, location, and space availability.

PERS 457 PROGRAM UPDATE

California Public Employees' Retirement System

CalPERS 457 Program Fund Options

In the Fall 98/Winter 99 issue the S&P 500 Index Fund and the Active Large-Cap Equity Fund were highlighted. In this issue we will take a look at the **Active Small-Cap Equity Fund**. The option is designed for the long-term investor, usually in excess of 5 years, with an aggressive/high tolerance to volatility of return.

It's important to know that Small-Cap Fund managers use fundamental factors to identify smaller companies that have strong growth potential when assessing which growth stocks to invest in.

Active Small-Cap Equity Fund

The CalPERS 457 Program Active Small-Cap Equity Fund option is a domestic fund managed by Brown Capital Management. Designed to maximize capital appreciation, it targets small to medium-capitalization level companies to aggressively invest in growth stocks to produce a significant return over time. This Fund calculates a net asset value per unit on a daily basis. The daily net asset value will fluctuate with the stock market.

Investor profile. An aggressive investor, with a high tolerance to volatility of return. This investor typically has an investment horizon in excess of 5 years.

Permitted investments. The Fund will invest primarily in equity securities of smaller companies, identified as having strong growth potential.

Expected returns. The Fund is expected to outperform its benchmark by 100 basis points, after base fees are deducted. The benchmark will consist of a 60/40 combination of such indexes as the Russell 2000 and the Wilshire Mid-Cap 750.

Considering Risk

When investing for your retirement, you need to consider your risks as well as the potential for reward.

Market Risk. Stock prices of foreign and U.S. companies are subject to many of the same influences, such as general economic conditions, company and industry earnings prospects and investor psychology. The more aggressive an investment, the greater its potential return.

Retirement Shortfall Risk. Any long-term investment concentrated in stocks carries a low retirement shortfall risk level. The less aggressive an investment, the less likely it will outpace inflation and provide enough income for retirement.

PERS 457 Deferred Compensation Plan Historical Fund Performance

Return as of 12/31/98

	1 Month	Year to Date	Inception to Date	Inception Date
Money Market Fund	0.31%	4.15%	3.96%	8/91
Stable Fixed Income Fund	0.36%	4.78%	4.51%	2/95
Bond Fund	0.34%	7.92%	7.25%	8/91
S&P 500 Equity Index Fund	5.79%	27.71%	17.96%	11/91
Active Large Cap Equity Fund	0.05%	16.62%	24.19%	2/95
Active Small Cap Equity Fund	8.68%	17.63%	12.97%	4/95
International Equity Fund	3.06%	13.81%	1.21%	4/95
Conservative Allocation Fund	1.14%	10.29%	9.70%	2/95
Moderate Allocation Fund	1.90%	14.65%	14.68%	4/95
Aggressive Allocation Fund	4.55%	16.90%	13.51%	4/95

FDIC Insured Investments

Insured Money Market Account	0.19%	2.30%	N/A	10/96
Certificates of Deposit		4/1/98	01/1/99	
One Year Guaranteed CD-Simple Interest		5.20%	4.25%	
Two Year Guaranteed CD-Simple Interest		5.35%	4.25%	
Three Year Guaranteed CD-Simple Interest		5.40%	4.25%	
Guaranteed CD Plus-3 Year		3.00%	2.70%	
Guaranteed CD Max-3 Year		— Rate Not Applicable—		

Returns shown are net of investment management and plan level expenses. Historical performance is not necessarily indicative of actual future investment performance, which could differ substantially. Investment return and principal value may fluctuate so that your investment, when redeemed, may be worth more or less than the contributions to your individual account.

Whether you are a conservative investor seeking security and income or a more aggressive investor looking for a higher return, the PERS 457 Program offers you superior low-cost investments and exceptional services that you can trust.

On the longest day of the year or the shortest, time can be your best ally in helping your money to grow

One of the most powerful ingredients you could add to your savings program is simply to give it time. Allow your money to compound over time — your money can earn money, which in turn can earn you more money, and that total amount can earn more, and so on. For example: a daily \$2.50 (5-day week) cappuccino habit translates to \$25 bi-weekly. \$25 invested bi-weekly in a fund earning an assumed interest rate of 8 percent will generate \$4,090 in 5 years, \$9,965 in 10 years, and \$125,000 in 30 years! The effects, given enough time, can be amazing.

The Rule of 72 is a simple way of estimating how long it takes to double money at different levels of investment returns:

72 divided by 6* = 12 years

72 divided by 8* = 9 years

72 divided by 10* = 7.2 years

**Your expected rate of return*